

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO INTERROGATORIES OF
THE AMERICAN BANKERS ASSOCIATION AND NATIONAL ASSOCIATION OF
PRESORT MAILERS
(ABA& NAPM/USPS-ST44-9-11, 13, 26(a) and 27)

The United States Postal Service hereby provides the responses of witness Patelunas to the following interrogatories of the American Bankers Association and National Association of Presort Mailers: ABA&NAPM/USPS-ST44-9-11 and 13, filed on July 25, 2000 and ABA&NAPM/USPS-ST44-26(a) and 27, filed on July 28, 2000. Interrogatories ABA&NAPM/USPS-ST44-1-8, 12, 20(a), 21, 22-25, and 26(b)-(d) were redirected to the Postal Service.

It should be noted that responses are not provided to interrogatories ABA&NAPM/USPS-ST44-14 through 19, as these were withdrawn by ABA & NAPM. It also should be noted that ABA & NAPM, throughout some of their interrogatories, characterize the Postal Service's response to Order No. 1294 as a "revised filing." The Postal Service's interrogatory responses should not be considered agreement with that characterization; the Postal Service considers its response to Order No. 1294 to consist of a requested update rather than a "revised filing."

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

A handwritten signature in dark ink, appearing to read "Susan M. Duchek", is written over a horizontal line.

Susan M. Duchek

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August 8, 2000

**Response of United States Postal Service witness Patelunas
to Interrogatories of
American Bankers Association and
National Association of Presort Mailers**

ABA&NAPM/USPS-ST44-9.

- a) Please explain with all documentation the additional \$102.5 million you assume in test year savings under the caption "improve manual letter productivity" in exhibit USPS-ST-44Z.
- b) Please explain the basis of your two cost reduction plug assumptions in the above exhibit, \$102.5 million for single piece letters versus \$51.4 million for automated letters, which has the net effect of giving the appearance of reduced cost avoidance for workshared letters.
- c) For each category in Exhibit USPS-ST-44Z, please break down the updated cost reduction by the following categories: (a) First Class single piece letters; (b) First Class metered letters; (c) First Class automation presort letters.

Response:

- a) The additional \$102.5 million "improve manual letter productivity" amount was supplied as the Postal Service's best estimate of this program consistent with the assumptions underlying the FY 2001 budget planning process.
- b) Assuming that "workshared" letters is synonymous with "presorted" letters, the difference between the \$102.5 million for single piece letters and the \$51.4 million for automated letters does not give the appearance of "reduced cost avoidance for workshared letters." The difference is the amount of savings projected for each cost reduction program; one program is bigger than the other.
- c) The rollforward model operates on the class, subclass and special service level of detail reported in the Cost and Revenue Analysis report. As such, First Class metered letters and First Class automation presort letters are not reported separately. To see all the cost reduction impacts on First Class

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Single Piece Letters, please see Table 6 of Volumes A - G of USPS-LR-I-410. Additional mail processing cost reduction detail is available in USPS-LR-I-408.

**Response of United States Postal Service witness Patelunas
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ABA&NAPM/USPS-ST44-10.

- a) In your revised filing in Exhibit USPS-ST-44Z, how much of your (i) "breakthrough productivity" initiatives, and (ii) other cost reduction factors by source, are allocated to: (a) First Class single piece letters; (b) metered letters and (c) presort letters in cost segment 3.1?
- b) In your final adjustments in Exhibit USPS-ST-44W ("D Report"), please crosswalk the cost reductions by subclass to Exhibit USPS-ST-44Z. If there is not a full reconciliation, please explain the sources of the other cost reductions in the former exhibit.

Response:

- a) The rollforward model operates on the class, subclass and special service level of detail reported in the Cost and Revenue Analysis report. As such, First Class metered letters are not reported separately. To see all the cost reduction impacts on First Class Single Piece Letters, please see Table 6 of Volumes A - G of USPS-LR-I-410. Presort Letters are reported for component grouping 3.1 in those tables and additional mail processing cost reduction detail for component grouping 3.1 is available in USPS-LR-I-408.
- b) I do not understand the question because there is no relationship to crosswalk between the final adjustments reported in the "D Reports" and the cost reductions reported in Exhibit USPS-ST44Z. The final adjustments can be found in USPS-LR-I-419 and the cost reductions can be found by class, subclass and special service in USPS-LR-I-410, Table 6.

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ABA&NAPM/USPS-ST44-11.

- a) Please confirm that test year volumes for First Class single piece letters and presort letters have not changed as between the original filing and revised filing. If you can not confirm, explain why not.
- b) Please confirm that the test year volumes for First Class basic automation letters, 3 digit prebarcoded and 5 digit prebarcoded letters have not changed between the original filing and the revised filing. If you can not confirm, explain why not.

Response:

- a) Confirmed that the same test year volumes that were used in the Request were used in the update.
- b) Confirmed that the same test year volumes that were used in the Request were used in the update.

**Response of United States Postal Service witness Patelunas
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ABA&NAPM/USPS-ST44-13.

Please refer to the attachment, which compares witness Patelunas' rollforward with mix adjustment figures to the test year in ST-44, before final adjustment plugs, to USPS witness Kashani's corresponding file as revised.

- a) Please confirm that the effect over all cost segments of the USPS revised filing as shown in the attachment is to add 311,863,000 to costs to First Class letters and to cut from Standard A Commercial mail (-\$309,275,000). If you can not confirm, explain why not.
- b) Please confirm that in the Postal Service's revised filing, there has been little if any shift in the volume of Standard A Regular commercial mail. If you can not confirm, explain why not.
- c) Please explain each and every source for the \$238,753,000 reduction in mail processing costs contained in the revised filing for Standard A Regular commercial mail as shown in the attachment.
- d) Please explain each and every source for the \$462,176,000 reduction in total unit costs contained in the revised filing for Standard A Regular commercial mail as shown in the attachment.
- e) Please confirm that one reason for the shifting of costs from Standard A Regular commercial mail in your revised filing is to obtain a higher cost coverage for that subclass under your original rate recommendations. If you can not confirm, explain why not.

Response:

- a) Confirmed that First Class Mail Letters increased \$311,863,000 and Standard A Commercial mail decreased \$309,275,000.
- b) Confirmed that the same volumes were used in the Request and the update.
- c) Please see my response to AAP/USPS-ST44-9(b).
- d) Please see my response to AAP/USPS-ST44-9(b).
- e) Not confirmed. The assumptions used in the updated revenue requirement and rollforward were not based on any cost coverage calculations.

**Original vs Updated Cost Segments
After Rates FY01 (W/Mix) (\$1,000)**

Cost Segments	First-Class Single Piece Letters			First-Class Presort Letters			Standard A Regular			Standard A ECR			Total Difference FC Letters	Total Difference Std. A Cons.
	Original 1/	Updated 2/	Difference 3/	Original 4/	Updated 5/	Difference 6/	Original 7/	Updated 8/	Difference 9/	Original 10/	Updated 11/	Difference 12/	13/	14/
CS-1, Postmaster	116,882	114,882		76,371	67,667		46,888	44,883		28,888	28,829			
CS-2, Superv. & Techs	686,865	686,865		283,776	250,647		346,308	320,408		111,186	115,016			
CS-3, Clerk & Mailhand	6,061,783	6,882,188		1,678,322	1,786,381		2,686,833	2,438,438		388,189	434,688			
CS-4, Clerk CAG-K Office	3,478	1,842		1,817	341		888	884		78	130			
CS-667, CS/ Del. Officer	1,801,877	1,878,746		1,267,484	1,248,184		1,432,638	1,346,388		883,881	837,388			
CS-6, Veh. Serv. Drivers	31,884	32,888		21,887	22,782		54,434	52,158		47,740	48,801			
CS-16, Rural Carriers	305,888	305,488		288,118	287,318		488,228	437,218		353,228	408,218			
CS-11, Outl. & Maint. Service	848,847	854,388		224,618	220,588		788,815	274,785		58,501	62,579			
CS-12, Motor Veh. Services	28,878	33,134		18,848	18,888		28,188	28,285		28,888	28,887			
CS-13, Mec. Oper. Costs	2,351	2,487		1,538	1,627		1,888	1,577		1,872	1,127			
CS-14, Purchased Triage	538,518	612,818		387,441	415,823		377,488	388,358		88,288	87,888			
CS-15, Building Occupancy	328,807	328,481		188,885	188,153		188,358	154,888		48,443	48,822			
CS-18, Supplies & Services	672,188	848,872		128,484	188,883		188,304	228,788		82,838	77,788			
CS-18, Admin. & Area Oper.	788,238	832,252		388,872	322,818		434,434	417,885		188,438	172,213			
CS-38, Other Adm'd Expenses	888,584	838,888		288,883	334,463		488,130	416,883		124,888	133,882			
TOTAL	12,882,881	13,153,823		5,888,247	5,182,178		8,871,212	8,808,888		2,388,828	2,551,827			
CS-3.1, Mail Processing	5,127,881	5,133,888		1,817,348	1,827,874		2,477,882	2,228,388		288,884	388,425			
CS-667A10, Delivery	2,217,748	2,282,244		1,348,888	1,538,883		1,882,888	1,782,518		1,316,428	1,348,811			

1/ 4/ 7/ & 10/ are from USPS-T-14, Exhibit USPS-14K

2/ 5/ 8/ & 11/ are from USPS-ST-44, Exhibit USPS-ST-44V

3/ 6/ 9/ & 12/ are the differences between updated and original costs

13/ is the sum of 3/ & 6/

14/ is the sum of 9/ & 12/

4884-5744-13
USPS-5744-13

**Response of United States Postal Service witness Patelunas
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ABA&NAPM/USPS-ST44-26.

- a) Beyond the incorporation of actual 1999 CRA data (BY99) in your revised roll-forward model to TY2001 before final adjustments, what other cost adjustment factors are explicitly factored into the roll-forward model by year before final adjustments in (1) BY1999; (2) 2000; (3) TY2001?
- b) What cost adjustment factors are explicitly factored into the final adjustments for TY2001?
- c) If there are cost adjustment factors that are incorporated into both the roll-forward before final adjustments and the final adjustments, please explain why, or what elements of each such factor are applied to the two procedures.
- d) Please explain why direct costs only, without piggybacks, are all that is needed for your final adjustments in response to Commission Order # 1294.

Response:

- a) The cost adjustment factors presented in Exhibit USPS-ST44L are explicitly factored into the roll-forward model by year before final adjustments in (1) BY1999; (2) FY2000; (3) TY2001. The impact of these cost adjustment factors can be seen in USPS-LR-I-410.
- b - d) Redirected to the Postal Service.

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ABA&NAPM/USPS-ST-44-27.

Please confirm that the sole source of your cost adjustments in Exhibit USPS-ST-44Z is the Postal Service's current budget process or operating budget or planning budget for FY2001, and for each cost adjustment factor please cite to the appropriate budget document and page of that document.

Response:

Confirmed. The FY2001 budget has not been approved.

DECLARATION

I, Richard Patelunas, declare under penalty of perjury that the foregoing answers to interrogatories are true and correct to the best of my knowledge, information, and belief.

Richard Patelunas

Dated: 8/8/00

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

A handwritten signature in cursive script, appearing to read "Susan M. Duchek", is written over a solid horizontal line.

Susan M. Duchek

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August 8, 2000